

AR02



UNITED CO-OPERATIVES OF ONTARIO

Annual Report 1978



UCO Basic Purpose

It is the purpose of United Co-operatives of Ontario to operate a growing and economically sound co-operative furnishing farm supplies and services, marketing farm products, and supplying consumer goods and services, in a manner which gives present and future members economic benefits and improves their quality of life and well being.

	1978	1977
Sales	\$ 369,295	\$ 304,750
Savings before income taxes	2,874	504
Income taxes	719	(180)
Dividend on preference shares (declared after year-end)	395	327
Additions to property and equipment	11,824	10,618
Working capital	31,332	26,816
Members' equity including deferred income tax	38,184	35,688
Total assets	142,888	130,104
	(\$000's omitted)	

*Robert A. Coulthard, *President*

*Royden C. Bloomfield, *1st Vice-President*

*Robert W.M. Down, *2nd Vice-President*

*W.J. Allan McIntosh

Clifford G.H. Allen

John S. Black

Ewald J.A. Lammerding

Stuart W. Luckhardt

Neil W. McGeachy

J.R. Ernest Miller

Roland J. Serré

Allan E. Wellman

* Members of Executive Committee

Julian L. Smith, *Chief Executive Officer and General Manager*

Robert J. Wright, *Vice-President, Corporate Services and Corporate Secretary*

Lionel J. Emond, *Vice-President and Treasurer*

Frank C. de Lint, *Vice-President and Controller*

Russell E. Duckworth, *Vice-President, Retail Services*

J. Donald Huff, *Vice-President, Farm Products Marketing*

Donald M. Moffatt, *Vice-President, Supply Services*

As we close the fiscal year your directors are pleased to bring you a report of our stewardship in monitoring and guiding your co-operative. Our concerns are that the co-operative serves the members well, builds continued support, maintains grass-roots connections with the membership, and continues on a sound business basis. Overall we feel that your co-operative has made good progress in all of these areas.

The board accepted 2,685 new members this year, bringing the total membership to 44,651. These, plus 52 member co-operatives which your board represents, worked together to produce the largest sales volume in UCO's history, \$369.3 million, a 21% increase over the previous year. Also significant is the improvement in savings which this year reached \$2.9 million. This is the money needed to strengthen the ownership base and to build new facilities in response to member needs. These achievements were obtained with a nominal 10% increase in assets which were \$142.9 million at year end.

Your board tries very hard to be sensitive to the "needs and wants of members" as is stated in our Basic Purpose. To achieve this, an action plan has been maintained to facilitate communication between the local elected representatives and UCO directors. This plan consists of two annual programs: Spring Information and Fall Zone Meetings.

Innovations to the Spring Information Meeting program produced the best results ever. UCO directors and senior management visited 108 retail and manufacturing locations and then by way of 23 meetings, met with 562 elected representatives. This is the largest number of elected representatives that have participated since these meetings were instituted. They provided an opportunity for directors of member co-operatives and branch delegates to participate in discussions on a variety of topics related to local needs and concerns. As a special bonus, we were able to meet personally and chat with many of our own employees.

The Fall Zone Meetings were also very well attended. It is at these meetings that delegates perform one of the most important functions on behalf of members, the election of UCO Zone directors. Under our control system, four directors are elected annually. At the Zone 4 meeting Allan Wellman was elected to his first term of office replacing Tyson Langman who had completed the maximum of four consecutive terms. Re-elected were Roland Serré, representing Zone 1, and Bob Down, representing Zone 7. Stuart Luckhardt, Group 2 director representing Zones 4, 5 and 6, was re-elected at the UCO Annual Meeting held in December 1977.

On a more informal basis, individual UCO directors met with member co-operative boards and branch councils. At their invitation they also attended various local functions such as board and council meetings, new member nights and annual meetings.

As part of our program to help elected leaders to develop their skills so as to better serve in their elected capacities, we have maintained a special training program called Building Leadership Skills. This consists of 11 one-day workshops dealing with such subjects as planning, leadership and public speaking. Again we had excellent participation and we hope made progress in helping to develop future leaders for Ontario co-operatives.

Also, as part of our program of building strong leadership for the future, we continued our annual CO-OP Youth Camp. The objective of this program is to develop leadership and communications skills and a better awareness of CO-OP principles and practices.

On a broader scope we encouraged young people to work toward significant goals which we hope will help them to prepare for future leadership. Again this year we maintained our annual scholarships at five Ontario agricultural colleges. Also, through the Junior Farmers' Association of Ontario we contributed to a travelling scholarship to Australia and New Zealand for a young farmer.

Our involvement with the agricultural and co-operative communities extends beyond our youth programs. Numerous tours, both within the province and elsewhere, were organized with the aim of informing co-operative members and patrons about improved agricultural practices and co-operative enterprise. Also, this past year we hosted more than 100 members from Danish co-operatives, 50 representatives of Ontario 4-H clubs, a large group of students from the Coady Institute in Antigonish, N.S., and a delegation of managers and board chairmen from Union Générale des Coopératives Agricoles Françaises in France.

A very significant group that visited with us was the board of Coopérative Fédérée de Québec which accepted our invitation to tour UCO and other CO-OP facilities. This important event, we feel, will do much to further improve the already excellent working relationships existing between their co-operative and ours over the years.

These programs and accomplishments were a result of the teamwork of our 1,832 employees who worked hard to serve your needs and produce the results we are pleased to report. To them goes our thanks and appreciation. And to my fellow directors, I express appreciation for their fine support and co-operation during my year as President of United Co-operatives of Ontario.



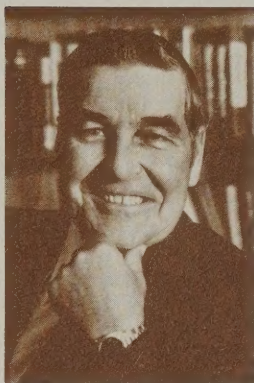
Co-operative efforts

*Bob Coulthard
President*

BOARD OF DIRECTORS



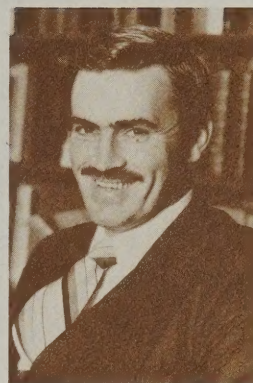
R.A. COULTHARD



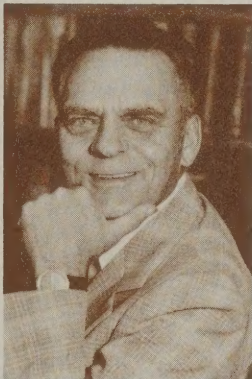
R.C. BLOOMFIELD



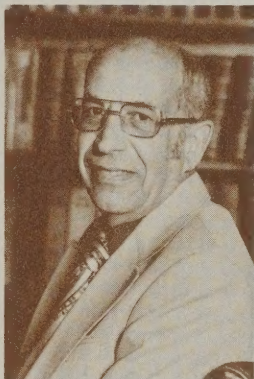
R.W.M. DOWN



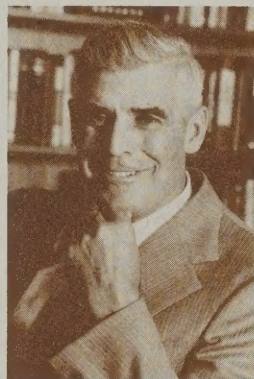
W.J.A. McINTOSH



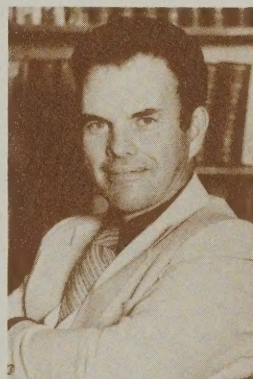
R.J. SERRÉ



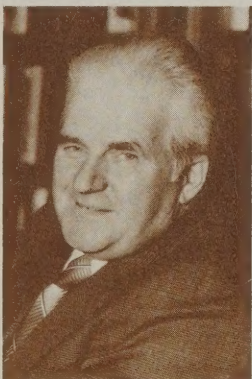
C.G.H. ALLEN



A.E. WELLMAN



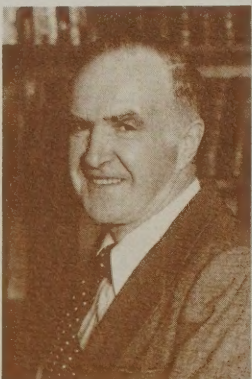
J.S. BLACK



E.J.A. LAMMERDING



N.W. McGEACHY



J.R.E. MILLER



S.W. LUCKHARDT

*Robert A. Coulthard, Group 3
President*

*Royden C. Bloomfield, Zone 8
1st Vice-President*

*Robert W.M. Down, Zone 7
2nd Vice-President*

*W.J. Allan McIntosh, Zone 2
Executive Committee Member*

Roland J. Serré, Zone 1

Clifford G.H. Allen, Zone 3

Allan E. Wellman, Zone 4

John S. Black, Zone 5

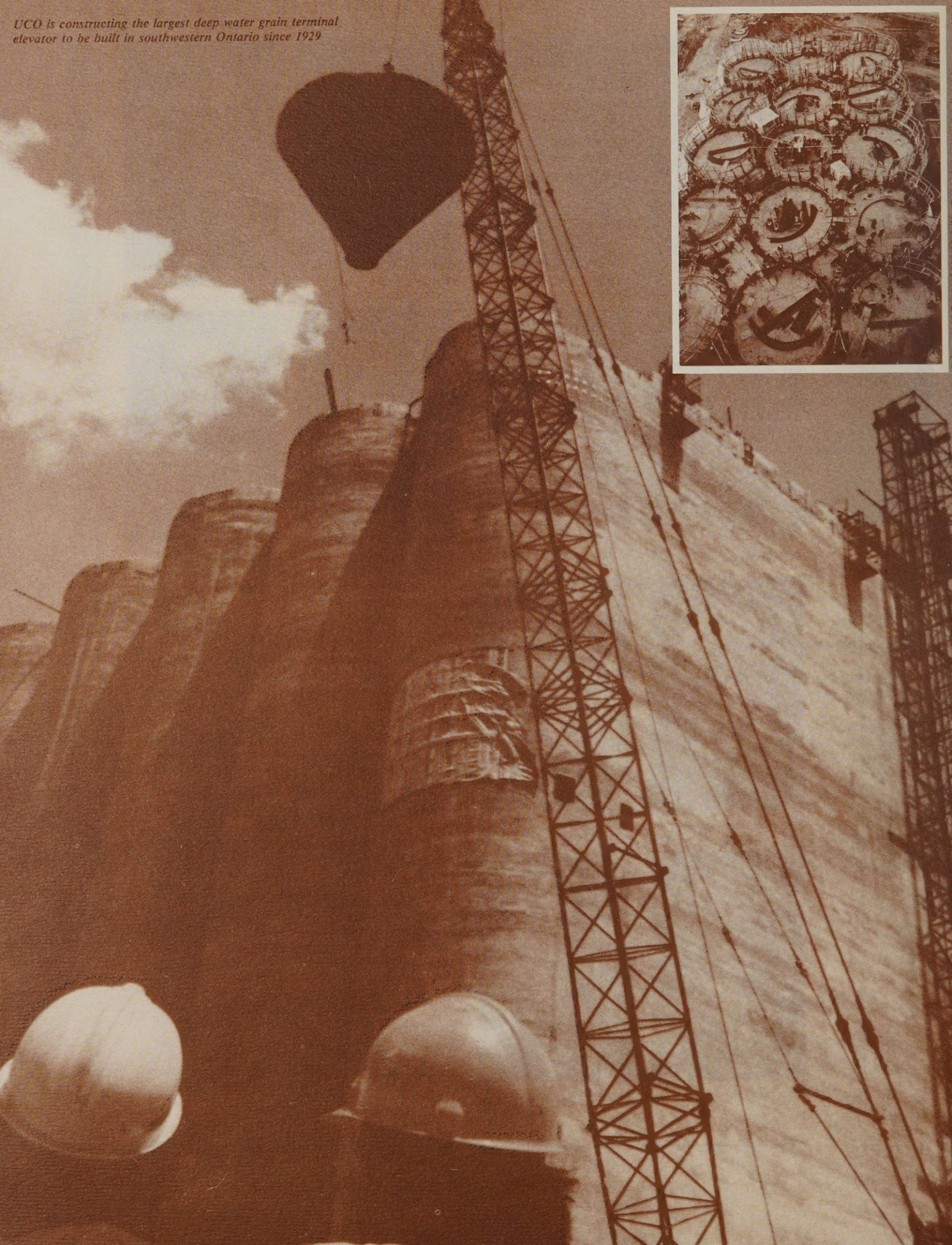
Ewald J.A. Lammerding, Zone 6

Neil W. McGeachy, Zone 9

J.R. Ernest Miller, Group 1

Stuart W. Luckhardt, Group 2

UCO is constructing the largest deep water grain terminal elevator to be built in southwestern Ontario since 1929



From the President's report, the concerns and interest of your co-operative in its people are evident. It was people fulfilling their roles that produced the good progress during the fiscal year ended September 30, 1978.

The members, those who own the business, continued to support it through their patronage and pushed sales figures to \$369.3 million, the highest level in the history of United Co-operatives of Ontario. A general spirit of co-operation, teamwork and pride was evident as employees went about the task of providing quality service and good value products to meet marketplace demands.

Our successes in fiscal 1978 are the result of the collective actions of 44,651 individual members, 52 member co-operatives and 1,832 employees. Truly, it was a year of co-operation in action as conceived by the founders of the co-operative movement; people, taking responsibility and working together to the benefit of all.

Marketing

Of all UCO operations, marketing of agricultural products such as cash grains and poultry produced the largest single increase in dollar volume.

In recent years the support of producers who have looked to their co-operative to provide better grain marketing services has resulted in an aggressive grain marketing program and the decision to build a major deep water grain terminal elevator. The Windsor Grain Terminal Elevator project, announced last year, is now well underway and is expected to be completed by spring 1979 at an overall estimated cost of \$24.5 million. It was originally planned that the terminal elevator would be sufficiently completed by fall 1978 to receive new crop corn and soybeans but a carpenters' strike shut down construction on the site for two months during the summer. This was a costly delay and resulted in the loss of revenue from handling the 1978 crop.

However, supported by the extensive publicity given to the terminal elevator and an excellent grain harvest in 1977, grain marketing operations' volume increased by 10 million bushels, well over the previous year. In addition, we are now marketing corn on a direct basis to the United Kingdom and soybeans to Japan, Singapore and Hong Kong.

With the completion of the Windsor Grain Terminal Elevator, the continued expansion of CO-OP grain handling facilities and the determined development of export markets, there is little doubt that Ontario farmers through their co-operative will make a significant impact on the marketing of cash grains at local, national and international levels.

After the very disastrous year of 1977 in poultry marketing, serious consideration was given to closing poultry processing operations. However, it was evident that such a drastic step would create major problems for both producers of broilers and hatching eggs as well as the balance of services within UCO. Efforts were redoubled to increase efficiencies in all phases of Tend-R-Fresh processing and marketing operations. Action was taken to encourage the formation of a National Chicken Marketing Agency which would give the industry some protection from imports. Although still badly needed for the future protection of the Ontario broiler industry, the National Chicken Marketing Agency has not been established. However,



Teamwork Makes It Happen

*Julian Smith
Chief Executive Officer*

around March 1978 a number of things happened which changed the marketing operation from a loss to an earning position. Broiler chicken in the U.S.A. was in short supply and the value of the Canadian dollar declined making it less profitable for American growers to ship into Canada. These conditions, combined with the strong price of beef and pork, permitted Ontario chicken to be sold at prices adequate to generate earnings for the processing operations during the last half of the year.

Successful marketing of processed birds created a demand for chicks. To accommodate this demand our hatchery added another incubator. Breeder flocks for hatching eggs were increased by 30,000 birds. The volume increase in the processing plant also resulted in increased production of meat and feather meals through the poultry by-products recycling plant.

The declining value of the Canadian dollar, plus duty and transportation charges contributed to the strongest Canadian beef prices we have seen for some time.

Financial problems of some smaller meat packers caused great concern in livestock marketing circles. This prompted UCO to exercise leadership in obtaining strengthened security bonding of buyers at the Ontario Stockyards.

Strikes at several major Ontario meat packers, together with slow movement of stocker cattle near the end of our fiscal year, held the number of livestock marketed by UCO to levels slightly lower than last year. However, higher prices paid for livestock at the yards pushed the dollar value of livestock marketed to a record \$117.8 million. Since this business is done on an agency basis, it is not included in UCO's sales volume.

Farm inputs

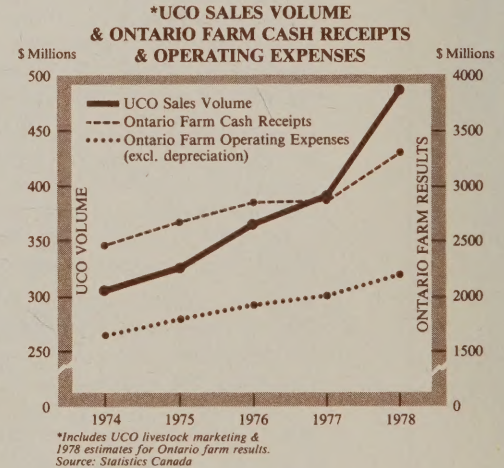
The fertilizer year started out very slowly with sales well below average. However, by year end fertilizer volume reached an all time high.

One contributing factor to this success story was last year's purchase of Ontario Plant Foods Limited which added vital storage capacity. A second factor was our success in overcoming severe rail and water transportation problems. Rail cars were in tight supply and it is expected the situation will recur in 1979.

An integral part of UCO fertilizer operations is CF Industries Inc. A disappointing fertilizer season in the U.S.A. and substantially reduced margins brought about by increased raw material costs, especially natural gas, and some price cutting at the manufacturers' level substantially curtailed the earnings of CF Industries Inc. and therefore the patronage return received by UCO.

The production of CO-OP hybrid corn continued to increase, although we did not reach our supply objective for all varieties. Performance of the Chatham Seed Corn Plant during its first full year of operation was satisfactory. However, due to the heavy capital cost of the new plant, operating results were somewhat disappointing.

Demand for CO-OP feed continued to grow such that sales through central plants were the highest ever in the history of UCO. Not only did this achievement apply to mixed feeds but also to the sale of feed grains and ingredients. Animal health



UNITED CO-OPERATIVES OF ONTARIO

CONSOLIDATED STATEMENT OF OPERATIONS

for the 53 weeks ended September 30, 1978

(With comparative amounts for the 52 weeks ended September 24, 1977)

	1978	1977
SALES	\$ 369,294,526	\$ 304,750,298
COST OF GOODS SOLD	319,535,263	262,101,817
GROSS MARGIN	49,759,263	42,648,481
COMMISSIONS	883,712	754,717
	50,642,975	43,403,198
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	47,768,575	42,899,635
SAVINGS BEFORE INCOME TAXES	2,874,400	503,563
INCOME TAXES (Note 1)	719,000	(179,800)
NET SAVINGS	<u>\$ 2,155,400</u>	<u>\$ 683,363</u>

Net savings for the year are after accounting for the following amounts:

Investment income - deducted from expenses	\$ 241,719	\$ 309,640
Depreciation	4,577,532	4,111,763
Remuneration of directors and senior officers	566,688	479,068
Interest on debentures and long term debt	4,163,309	3,552,512
Interest on short term loans	3,053,950	2,532,421
Total interest	7,217,259	6,084,933

CONSOLIDATED STATEMENT OF GENERAL RESERVE

For the 53 weeks ended September 30, 1978

BALANCE AT BEGINNING OF YEAR	\$ 12,853,594	\$ 15,741,794
Add: Net savings for the year	2,155,400	683,363
Credit arising from revaluation and collection of branch accounts receivable	21,801	-
Gain on disposal of fixed assets	394,134	17,707
	<u>15,424,929</u>	<u>16,442,864</u>
Less: Patronage returns for preceding year	-	3,585,601
Dividends on preference shares (Note 7)	327,584	3,669
	<u>327,584</u>	<u>3,589,270</u>
BALANCE AT END OF YEAR	<u>\$ 15,097,345</u>	<u>\$ 12,853,594</u>

The accompanying notes are an integral part of the financial statements.

UNITED CO-OPERATIVES OF ONTARIO CONSOLIDATED BALANCE SHEET

September 30, 1978

(With comparative amounts at September 24, 1977)

	ASSETS	1978	1977
CURRENT			
Cash		\$ 34,185	\$ 43,031
Accounts receivable, less \$1,651,000 allowance for doubtful accounts (1977 - \$1,578,837)		39,123,697	34,354,133
Merchandise inventories		44,167,348	45,051,489
Prepaid expenses and supplies		1,073,981	1,070,828
Total current assets		<u>84,399,211</u>	<u>80,519,481</u>
DEFERRED ACCOUNTS RECEIVABLE			
Patronage receivable		5,854,018	5,443,394
Other accounts receivable		22,318	298,505
Total deferred receivables		<u>5,876,336</u>	<u>5,741,899</u>
INVESTMENTS (Note 2)		4,357,390	2,624,705
PROPERTY AND EQUIPMENT (Note 3)		<u>48,254,927</u>	<u>41,217,783</u>
		<u>\$ 142,887,864</u>	<u>\$ 130,103,868</u>
LIABILITIES AND MEMBERS' EQUITY			
CURRENT			
Bank indebtedness		\$ 12,190,456	\$ 17,531,835
Notes payable		12,300,000	10,860,000
Accounts payable and accrued liabilities		26,066,960	25,044,978
Current portion of long term debt		2,465,646	240,046
Income taxes payable		44,562	26,225
Total current liabilities		<u>53,067,624</u>	<u>53,703,084</u>
DEFERRED INCOME TAXES (Note 1)		3,663,900	3,078,000
LONG TERM DEBT (Note 4)		<u>51,636,282</u>	<u>40,712,501</u>
Total liabilities		<u>108,367,806</u>	<u>97,493,585</u>
MEMBERS' EQUITY (Note 5)			
Preference shares - Class "A"		1,613,940	1,642,190
Preference shares - Class "B"		5,243,960	5,323,280
Common shares		11,929,060	12,140,720
Contributed surplus		635,753	650,499
General reserve - per statement		15,097,345	12,853,594
Total members' equity		<u>34,520,058</u>	<u>32,610,283</u>
		<u>\$ 142,887,864</u>	<u>\$ 130,103,868</u>

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Robert A. Coulthard, Director

Royden C. Bloomfield, Director

UNITED CO-OPERATIVES OF ONTARIO

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the 53 weeks ended September 30, 1978

(With comparative amounts for the 52 weeks ended September 24, 1977)

	1978	1977
SOURCE OF FUNDS		
Funds derived from operations		
Net savings for the year	\$ 2,155,400	\$ 683,363
Add: Charges to operations which did not require the outlay of current funds		
Depreciation	4,577,532	4,111,763
Deferred income taxes	585,900	(245,000)
	<u>7,318,832</u>	<u>4,550,126</u>
Decrease in deferred accounts receivable	-	364,811
Proceeds on disposal of property and equipment	603,440	336,590
Debentures increase	1,434,835	7,651,307
Increase in other long term debt	11,796,206	-
Preference shares issued	21,900	2,014,141
Common shares issued	27,210	2,354,192
Other credits to general reserve and contributed surplus	7,055	7,373
	<u>21,209,478</u>	<u>17,278,540</u>
 APPLICATION OF FUNDS		
Increase in deferred receivables and investments	1,867,122	168,682
Additions to property and equipment	11,823,982	10,618,342
Debentures redeemed	2,307,260	958,582
Decrease in long term debt	-	214,361
Preference shares redeemed or acquired for resale	129,470	178,288
Common shares redeemed	238,870	690,903
Payment of dividends on preference shares	327,584	3,669
Patronage returns for preceding year	-	3,585,601
	<u>16,694,288</u>	<u>16,418,428</u>
 INCREASE IN WORKING CAPITAL	<u>4,515,190</u>	<u>860,112</u>
 WORKING CAPITAL AT BEGINNING OF THE YEAR	<u>26,816,397</u>	<u>25,956,285</u>
WORKING CAPITAL AT THE END OF THE YEAR	<u><u>\$ 31,331,587</u></u>	<u><u>\$ 26,816,397</u></u>
 WORKING CAPITAL IS DEFINED AS FOLLOWS:		
CURRENT ASSETS LESS:	\$ 84,399,211	\$ 80,519,481
CURRENT LIABILITIES	53,067,624	53,703,084
	<u><u>\$ 31,331,587</u></u>	<u><u>\$ 26,816,397</u></u>

The accompanying notes are an integral part of the financial statements.

UNITED CO-OPERATIVES OF ONTARIO

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1978

1. ACCOUNTING POLICIES

Consolidation

The accounts of all the wholly-owned subsidiary companies, being Patrons Capital Funding Limited, Patrons Acceptance Limited, Patrons Transportation Limited, Patrons Elevators Limited and Tend-R-Flesh Limited (non-operating) have been consolidated and are as of September 30, 1978.

Inventories

Inventories are valued at the lower of cost or replacement cost. Cost is determined principally on the first-in, first-out method.

Fixed Assets and Depreciation

Fixed assets are stated at cost. The cost of fixed assets has been reduced by the government contribution received as outlined in Note 7. The policy of the company is to provide for depreciation charges to operations, on a straight-line basis, which will absorb the cost of property, plant and equipment over the estimated useful lives. At the time property, plant and equipment items are retired or otherwise disposed of, the related cost and accumulated depreciation is removed from the accounts and the resulting gain or loss is included in the general reserve. Maintenance and repairs are charged to operations as incurred. Major renewals and betterments are capitalized.

Income Taxes

Income taxes charged in the consolidated statement of operations represent both the portion currently payable of \$133,100 and a deferred portion of \$585,900. The deferment of income taxes results from claiming depreciation for tax purposes in amounts which exceed the charges recorded in the accounts. The accumulated total of such income tax deferment is reflected in the consolidated balance sheet as "Deferred Income Taxes".

2. INVESTMENTS — at cost

These are made up as follows:

	1978	1977
Shares in other companies	\$ 3,635,000	\$ 1,809,755
Loans to other companies	493,500	493,500
Properties	28,690	29,281
Mortgages due 1978 - 1983 at rates 5 1/2% to 11 1/2%	249,638	346,873
	<u>4,406,828</u>	<u>2,679,409</u>
Less: Current portion shown under accounts receivable	49,438	54,704
	<u>\$ 4,357,390</u>	<u>\$ 2,624,705</u>

3. PROPERTY AND EQUIPMENT

Assets - at cost

Land	\$ 3,984,177	\$ 3,592,363
Buildings	30,203,945	26,017,072
Machinery and equipment	33,660,010	27,848,763
Automobiles and trucks	9,201,043	8,632,028
	<u>77,049,175</u>	<u>66,090,226</u>

Accumulated Depreciation

Buildings	5,161,405	4,437,775
Machinery and equipment	16,846,792	14,591,548
Automobiles and trucks	6,786,051	5,843,120
	<u>28,794,248</u>	<u>24,872,443</u>

Net book value	<u>\$ 48,254,927</u>	<u>\$ 41,217,783</u>
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UNITED CO-OPERATIVES OF ONTARIO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1978

4. LONG TERM DEBT

Details of amounts outstanding are:

Debentures	1978	1977
Senior debentures		
5% to 7½% due 1979 - 1989	\$ 773,306	\$ 1,629,125
Over 7½% to 9% due 1979 - 1996	16,027,829	14,533,274
Over 9% to 10½% due 1983 - 1992	14,057,888	14,502,094
	<u>30,859,023</u>	<u>30,664,493</u>
Subordinated debentures		
9.125% to 9.85% due 1993	261,400	-
9.375% to 10.1% due 1998	895,708	-
	<u>1,157,108</u>	<u>-</u>
Total debentures	32,016,131	30,664,493
Less: Principal repayments due within one year	2,374,748	150,685
	<u>29,641,383</u>	<u>30,513,808</u>
Other Long Term Debt		
Mortgages - 5% to 10% due 1978 - 1987	528,956	658,054
First mortgage bonds 10¾% due 1996 (a)	6,326,841	-
Term bank loans at prime plus ½% to ¾% due 1985 - 1987	15,000,000	9,400,000
Notes 8% to 8½% due 1979 - 1989	230,000	230,000
	<u>22,085,797</u>	<u>10,288,054</u>
Less: Principal repayments due within one year	90,898	89,361
	<u>21,994,899</u>	<u>10,198,693</u>
	<u>\$ 51,636,282</u>	<u>\$ 40,712,501</u>

(a) Proceeds from first mortgage bonds in the amount of \$12,000,000 issued December 15, 1977 and June 15, 1978 to finance the Windsor Grain Terminal Elevator are held by the trustee. As capital expenditures are incurred on the Windsor project funds are released by the trustee. Approved amounts released to September 30, 1978 are \$6,326,841.

During the year, new debentures totalling \$3,658,898 were issued and debentures totalling \$2,307,260 were redeemed. Long term debt due in the next five years is as follows: 1979 - \$2,465,646; 1980 - \$3,003,798; 1981 - \$5,694,479; 1982 - \$5,373,747; 1983 - \$5,551,402.

5. SHARE CAPITAL

Preference Class "A" Shares

Authorized:

801,790 redeemable, cumulative, non-voting, 5% class "A" preference shares, par value \$10 redeemable at par after redemption during the year of 2,825 shares - \$8,017,900.

Issued and outstanding:

161,394 shares after the redemption of 2,825 shares referred to above - \$1,613,940.

Preference Class "B" Shares

Authorized:

563,092 redeemable, cumulative, non-voting, 6% class "B" preference shares, par value \$10 redeemable at par after redemption during the year of 3,305 shares - \$5,630,920.

Issued and outstanding:

531,213 shares including 2,190 shares issued during the year for cash and the redemption of 3,305 shares referred to above \$ 5,312,130
Less: 6,817 shares held for resale 68,170
\$ 5,243,960

UNITED CO-OPERATIVES OF ONTARIO
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1978

5. (cont.)

Common Shares

Authorized:

2,297,585 co-operative common shares, par value \$10 redeemable at par after redemption during the year of 23,887 shares - \$22,975,850.

Issued and outstanding:

1,192,906 shares including 2,721 shares issued for cash during the year and the redemption of 23,887 shares referred to above - \$11,929,060.

6. NON-MEMBER BUSINESS

The non-member business for the year ended September 30, 1978 was approximately 27 percent of the total volume.

7. COMMITMENTS

Subsequent to the year-end, the Board of Directors authorized the redemption of the 1968 common shares in the amount of \$193,000.

The co-operative is building a deep water grain terminal elevator in Windsor at an approximate cost of \$24,500,000. The Government of Canada has agreed to contribute \$9,000,000 of this amount with provision for repayment depending on the degree of financial success of the project. As at September 30, 1978 approximately \$16,000,000 has been spent on the project.

The Board of Directors authorized the payment of dividends on October 1, 1978 of approximately \$395,000 payable to Class "A" and Class "B" preference shareholders of record as of September 30, 1978.

8. ANTI-INFLATION LEGISLATION

The co-operative was subject to the anti-inflation legislation (Bill C-73) which provides for the restraint of profit margins, prices, dividends and compensation to employees. In the opinion of management, the co-operative was in compliance with this legislation.

AUDITOR'S REPORT

To the Shareholders

United Co-operatives of Ontario

We have examined the consolidated balance sheet of United Co-operatives of Ontario, as at September 30, 1978, and the consolidated statements of operations, general reserve and changes in financial position for the 53 weeks then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly, included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the co-operative as at September 30, 1978, and the results of its operations and changes in its financial position, for the 53 weeks then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
November 10, 1978

G. H. Ward and Partners
Chartered Accountants

products which are part of the feed program also showed a substantial volume increase.

Petroleum volume during the year was disappointing. Price wars and extreme price variations at retail gas bars increased the competitive pressure on farm sales limiting the opportunity for UCO to assist the farm consumer. Consumption of heating oils was down from a year ago because people prudently applied conservation techniques. They turned down thermostats, added insulation and storm windows and in many communities used wood for supplemental heat.

Increasing energy cost has been a concern to everyone. In spite of a higher percentage increase in energy prices and substantially higher business volume we held energy expense to a 10% increase in 1978 compared to a 24% increase in 1977. This was done by an organized and systematic energy saving program.

In general, the farm hardware and equipment area produced a good increase in volume. This occurred in spite of farmers' reluctance early in the year to invest in capital items that could be deferred to another time. Therefore, sales reductions were evident in milking equipment, barn equipment, fencing and metal roofing. However, a substantial increase in volume of building and lumber supplies offset some of these declines.

Retail

Expansion of retail facilities at both member co-operatives and UCO branches, complemented by increased participation by members in their co-operative services, produced a 12% increase in retail supply volume and a 25% increase in grain marketing volume in fiscal 1978.

To support this increased retail volume both UCO branches and member co-operatives continued to replace, modernize, expand and acquire facilities such as retail stores, warehouses, fertilizer blenders, grain dryers, elevators and feed mills. The acquisition of Melair Grains Limited at Ayr, which added 250,000 bushels of storage to the Ayr branch operations increasing its capacity fourfold, is but one example of the overall improvement and expansion of retail facilities in our co-operative system.

Corporate services

Backing up the extensive and diversified operations is a core of highly specialized service functions. These include transportation, advertising, public relations, employee relations, engineering and data processing.

Transportation Division and its shipping subsidiary, Patrons Transportation Limited, are doing a vital job in facilitating the movement of merchandise both by rail and ocean transport. The most critical of their tasks is to move grain and fertilizer despite shortages of licensed haulers and rail cars during peak seasons.

Although our ship, The Canadian Farmer, was instrumental in providing an adequate flow of product to our manufacturing and warehouse points, ocean freight rates were not adequate to produce earnings for this operation.

United Co-operatives of Ontario is served by an excellent advertising department. This department has maintained a high standard of attractive, honest and forthright communication of what co-operatives have to offer for sale. It has served members well as evidenced by national awards it has received for high quality work.

A major arm of any modern business today is its electronic data processing services. This past year we completed the installation of a new high capacity computer to handle the rapid growth in UCO business volume and the increasing number of business problems being assigned to the computer. This step will provide lower cost and more satisfactory services to the many divisions dependent upon such equipment to carry out their functions.

Our Engineering Division has met many and varied demands for modifications, remodellings and new construction projects mentioned throughout this report. In the past year this division was involved in 66 different projects, ranging from designing small concrete pads for fertilizer storage to co-ordinating construction of the Windsor Grain Terminal Elevator. Their busy schedule has been maintained with a remarkable record of holding the final costs for all projects completed during the year to 0.6% above cost estimates.

To produce a sales volume of \$369.3 million, a business must be fully staffed with competent employees. This means that employees must be recruited, hired, and developed. This year 70% of all management, sales and technical vacancies which occurred were filled by promotion from within the organization. This fact augurs well for the progressive manpower planning and training programs managed by the Employee Relations Division.

Corporate communication and the development of informed, participating members are two of the responsibilities of the Public Relations Division. Activities such as the Spring Information and Fall Zone Meetings, the Building Leadership Skills program, Youth Camp, tours and many others described in the President's report are co-ordinated by this division. In addition, it handles media relations, charitable contributions and corporate publications such as UCO NEWS for members, UCO LEADER for elected representatives and UCO REPORTER for employees.

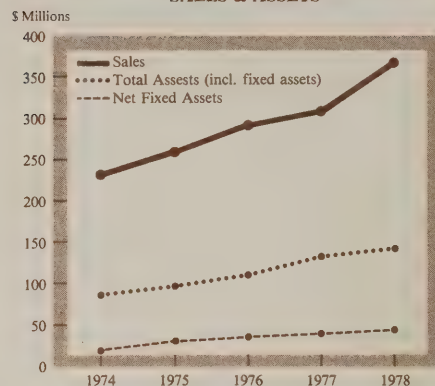
Operating results

The all-time record sales volume of \$369.3 million was \$64.5 million or 21% over the previous year. A little less than 2% of this increase can be attributed to the 53 week accounting year. Grain marketing and fertilizer sales accounted for \$42 million of this increase. All operating areas showed increases in dollar sales ranging from 3% to 60%.

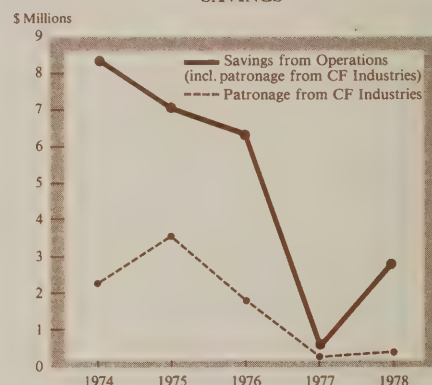
Savings before taxes of \$2.9 million were a significant improvement over the previous year but still quite modest for our volume of business. However, a fuller picture of the operating results is presented when it is noted that funds produced by operations, largely net savings plus depreciation, were \$7.3 million compared to \$4.5 million in 1977.

Depreciation increased \$465,800. This result was accomplished after carrying interest expense of \$7.2 million, up from \$6.1 million the previous year. Working capital increased \$4.5 million compared to an increase of \$860,100 the previous year.

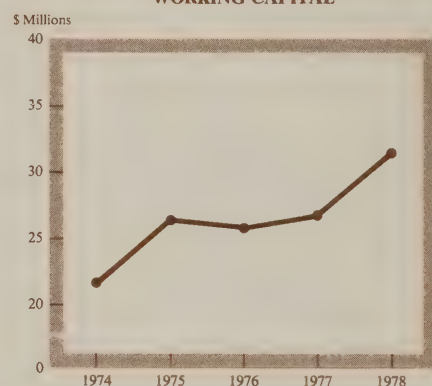
SALES & ASSETS



SAVINGS



WORKING CAPITAL



The overall gross margin as a percent of sales was $\frac{1}{2}\%$ less than last year. This was heavily influenced by low gross margins produced through grain marketing operations.

Tight expense control, combined with increased efficiencies, kept operating costs below budget for the year.

It is noteworthy that corporate income and realty taxes amounted to \$1.5 million compared to \$1.3 million in 1977. In addition to this, \$4.6 million of income taxes were remitted on behalf of UCO employees. Including an additional \$11.7 million in sales, gasoline and statutory payments, a total of \$17.8 million was remitted to various levels of governments.

The balance sheet indicates substantial growth as a result of the greater volume of business and new facilities and equipment which brought the level of year end assets to \$142.9 million, an increase of \$12.8 million. Inventories which peaked at \$61.8 million in March were \$44.2 million at year end, and were below last year's inventory level of \$45.0 million. Inventory turnover improved from 7.7 times to 8.3 times or a reduction of 12 days sales in inventories.

Accounts receivable were reduced from 49.1 days sales last year to 39.6 days sales this year in spite of an overall increase from \$34.3 million to \$39.1 million.

Capital expenditures for the year were \$11.8 million of which \$7.3 million went to the Windsor Grain Terminal Elevator. In accordance with projections made at the time of the decision to go ahead with the terminal elevator, member equity declined by 0.7% at year end to 26.7% of total assets.

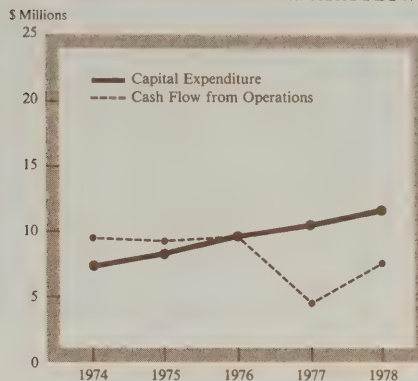
During the year your co-operative offered 5 and 10 year debentures at various rates as dictated by the market, but both issues were sold out at year end. A new investment instrument called Member Capital Investment Certificate (MCIC) with terms of 15 or 20 years at varying interest rates was created. These latter instruments enabled your co-operative to match its capital expenditures with suitable long term debt while at the same time offering co-operative investments with a good rate of return.

Regular lines of credit from our lead banker provided adequate credit lines for short and medium term accommodations. Short term funds were borrowed from the co-operative credit sector. Also, a substantial medium term banking line was developed with a second bank to diversify our sources of borrowing. Debenture sales to members and investors exceeded our sales objective of \$3.0 million.

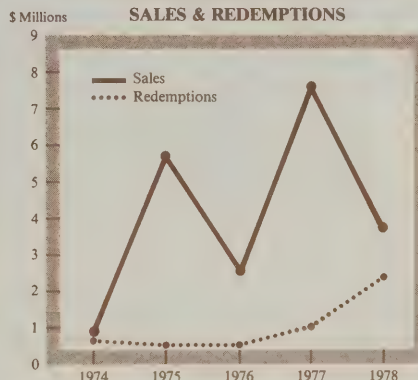
The interest of investors which includes members, employees, the general public and financial institutions has been protected as evidenced by the high credit rating of our co-operative and its continued unblemished record of fulfilling its financial obligations in spite of high interest and financing costs. This achievement was made possible by the fact that after meeting the challenge of the marketplace, a substantial increase in earnings was achieved.

Yes, a co-operative is a business, but it is a business that strives to serve the interests of its people well. Their expectations must be met if our co-operative is to continue to grow and progress. I am confident that fiscal 1978 will be recorded as a year of growth and progress.

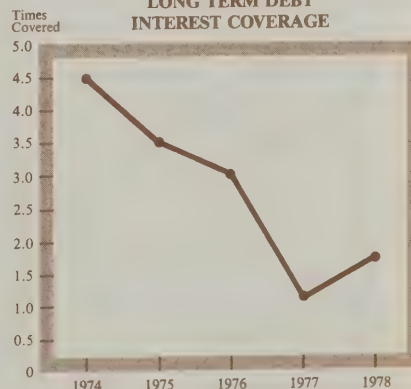
CAPITAL EXPENDITURE & CASH FLOW



DEBENTURES & M.C.I.C. SALES & REDEMPTIONS



LONG TERM DEBT INTEREST COVERAGE





Efforts to increase efficiencies in all phases of Tend-R-Fresh operations proved successful

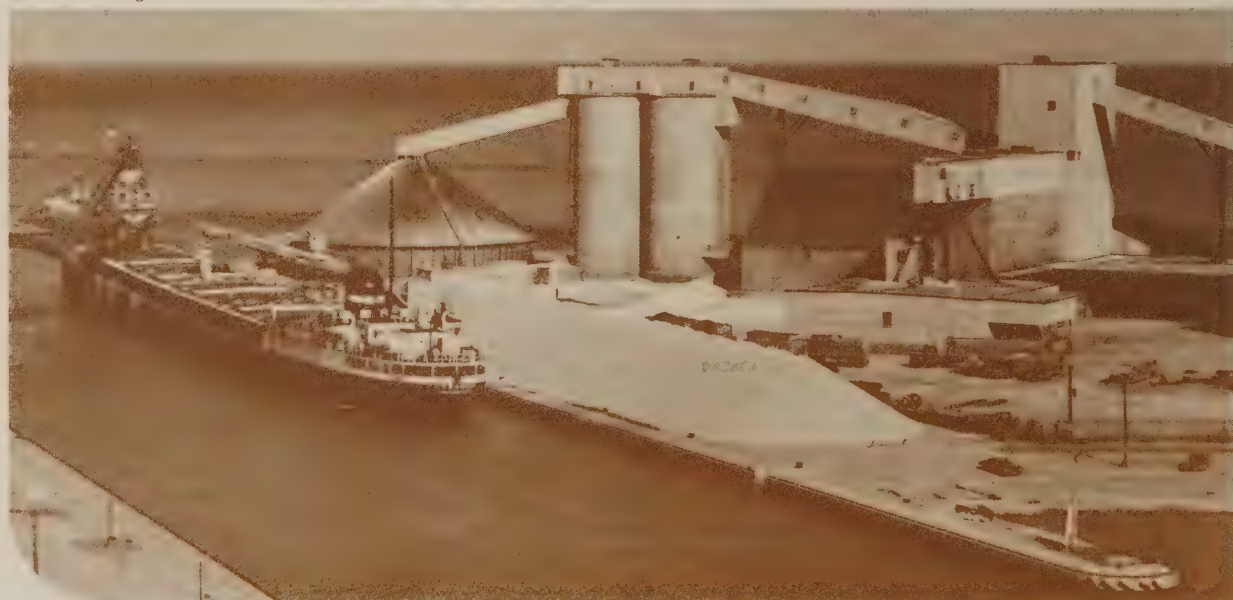


Markdale — one example of expansion and modernization to better serve CO-OP members

Meadowvale Distribution Centre — from here to CO-OP outlets across Ontario, meeting the needs of members



Potash unloaded at Goderich — representing a fulfilled commitment to supply CO-OP members with fertilizer in spite of a severe rail car shortage





UCO's Building Leadership Skills program — development of elected leaders through 11 different seminars



Value of livestock marketed by UCO reached record levels this year

Progressive CO-OP grain marketing programs continued to meet the demands of producers

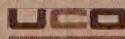
FINANCIAL AND OPERATING HIGHLIGHTS

	(\$000's ommitted)									
	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969
Operations and Changes in Financial Position										
Sales	369,295	304,750	292,398	258,441	230,457	166,360	133,941	124,097	108,735	96,535
Net savings before taxes and patronage	2,874	504	6,384	7,066	8,471	4,134	1,595	860	760	1,020
- as a % of sales	0.8%	0.2%	2.2%	2.7%	3.7%	2.5%	1.2%	0.7%	0.7%	1.1%
Patronage returns	-	-	3,586	4,204	3,997	2,642	783	-	-	429
Increase (decrease) in working capital	4,515	860	(451)	4,913	(698)	9,119	1,279	4,520	1,275	1,164
Additions to property and equipment	11,824	10,618	9,846	8,226	7,325	3,437	5,747	4,172	3,993	2,915
Cash flow from operations	7,319	4,550	9,824	9,253	9,864	5,698	3,364	2,395	2,106	2,226
Depreciation	4,578	4,112	3,745	3,243	3,034	2,277	1,915	1,768	1,506	1,394
Financial Position at Year-End										
Working capital	31,332	26,816	25,956	26,407	21,495	22,193	13,075	11,795	7,275	5,999
-ratio	1.6	1.5	1.6	1.7	1.6	2.1	1.6	1.5	1.3	1.3
Property, plant & equipment - net	48,255	41,218	35,030	29,073	24,366	20,200	19,710	16,008	14,329	12,011
Total assets	142,888	130,104	109,963	99,356	85,257	67,000	59,498	52,800	48,169	40,135
Long-term debt	51,636	40,713	34,234	32,217	25,374	26,560	20,065	16,829	12,234	10,204
Long-term debt % of members' equity plus long-term debt	57%	53%	49%	51%	49%	57%	56%	47%	50%	48%
Cash flow to capital expenditures	0.62:1	0.43:1	1.00:1	1.12:1	1.35:1	1.66:1	0.59:1	0.57:1	0.53:1	0.76:1
Equity to total assets %	26.7%	27.4%	32.1%	31.4%	31.1%	30.1%	26.4%	26.9%	25.7%	28.2%
Number of members	44,700	*42,700	45,300	43,400	39,600	38,600	35,600	32,000	28,900	24,400

*Over 4,000 partially-paid shares were redeemed from members whose full member's share was not paid in accordance with the Co-operative Corporations Act.



Co-operative business, as conceived by its founders, means people working together to the benefit of all



UNITED CO-OPERATIVES OF ONTARIO

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